

City of Frontenac, Kansas

Independent Auditors' Report & Financial Statements

December 31, 2015



Monica R. Kellogg
CPA, LLC

620.235.0920 | f: 620.231.0725

214 East McKay | Frontenac, KS 66763

City of Frontenac, Kansas

December 31, 2015

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Monica R. Kellogg
CPA, LLC

214 East McKay | Frontenac, KS

INDEPENDENT AUDITORS' REPORT

To the Honorable Mayor and City Council
City of Frontenac, KS

We have audited the accompanying fund summary statement of regulatory basis receipts, expenditures, and unencumbered cash balances of the City of Frontenac, Kansas, as of and for the year ended December 31, 2015, and the related notes to the financial statement.

Management's responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of this financial statement in accordance with the Kansas Municipal Audit and Accounting Guide as described in Note 1 to meet the financial reporting requirements of the State of Kansas. Management is also responsible for the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of the financial statement that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial statement based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the Kansas Municipal Audit and Accounting Guide. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statement. The procedures selected depend on auditor's judgment, including the assessment of the risks of material misstatement of the financial statement, whether due to fraud or error. In making those assessments, the auditor considers internal control relevant to the City's preparation and fair presentation of the financial statement to design audit procedures that are appropriate in the circumstances, but not for expressing an opinion on the effectiveness of the City's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statement.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles

As described in Note 1 of the financial statement, the financial statement is prepared by the City of Frontenac, Kansas to meet the requirements of the State of Kansas based on the financial reporting provisions of the Kansas Municipal Audit and Accounting Guide, which is a basis of accounting other than accounting principles generally accepted in the United States of America.

The effects on the financial statement of the variances between regulatory basis of accounting described in Note 1 and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

Adverse Opinion on U.S. Generally Accepted Accounting Principles

In our opinion, because of the significance of the matter discussed in the "Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles" paragraph, the financial statement referred to above does not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the City of Frontenac, Kansas as of December 31, 2015, or changes in financial position and cash flows thereof for the year then ended.

Opinion on Regulatory Basis of Accounting

In our opinion, the financial statement referred to above presents fairly, in all material respects, the aggregate cash and unencumbered cash balance of the City of Frontenac, Kansas, as of December 31, 2015, and the aggregate receipts and expenditures for the year then ended in accordance with the financial reporting provisions of the Kansas Municipal Audit and Accounting Guide described in Note 1.

Report on Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the fund summary statement of regulatory basis receipts, expenditures, and unencumbered cash balances (basis financial statement) as a whole. The summary of regulatory basis expenditures—actual and budget, individual fund schedules of regulatory basis receipts and expenditures—actual and budget, schedule of regulatory basis receipts and expenditures—agency funds, as listed in the table of contents, are presented for analysis and are not a required part of the basis financial statement. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statement. The information has been subjected to the auditing procedures applied in the audit of the basic financial statement and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statement or to the basic financial statement itself, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statement as a whole, on the basis of accounting described in Note 1.


Monica R. Kellogg, CPA, LLC

Frontenac, Kansas
December 21, 2016

City of Frontenac, Kansas

Summary Statement of Cash Receipts, Expenditures and Unencumbered Cash For the Year Ended December 31, 2015

Funds	Beginning Cash and Investment Balance,	Cash Receipts	Expenditures	Transfer In (Out)	Unencumbered Ending Cash and Investment Balance	Outstanding Encumbrances and Accounts Payable	Ending Cash and Investment Balance
General Fund	\$ 99,790	\$ 2,407,119	\$ 2,203,644	\$ (92,351)	\$ 210,914	\$ -	\$ 210,914
Special Revenue Funds							
Special Highway	28,181	102,353	76,654	-	53,880	-	53,880
Special Parks & Recreation	5,355	23,091	74,878	50,000	3,568	-	3,568
Special Equipment Reserve	139,600	-	-	42,351	181,951	-	181,951
Debt Service Funds							
Bond & Interest	109,317	420,584	339,834	-	190,067	-	190,067
Temporary Note-Sewer	-	225,000	24,452	-	200,548	-	200,548
Enterprise Funds							
Water	286,705	561,011	430,257	-	417,459	-	417,459
Sewer	47,338	415,949	334,510	-	128,777	-	128,777
Total	\$ 716,286	\$ 4,155,107	\$ 3,484,229	\$ -	\$ 1,387,164	\$ -	\$ 1,387,164

Composition of Cash and
Investments:

Checking Account	\$ 1,171,195
Certificate of Deposits	\$ 265,791

Total Cash and Investments	\$ 1,436,986
Less Agency Fund (Meter Deposits)	\$ (49,822)
	<u>\$ 1,387,164</u>

The notes to the financial statements are an integral part of this statement.

City of Frontenac, Kansas

Summary of Expenditures - Actual and Budget For the Year Ended December 31, 2015

Funds	Certified Budget	Expenditures in Current Year	Variance- Favorable (Unfavorable)
General Funds	\$ 2,608,698	\$ 2,295,995	\$ 312,703
Special Revenue Funds			
Special Highway	101,242	76,654	24,588
Special Parks & Recreation	88,100	74,878	13,222
Debt Service Funds			
Temporary Note-Sewer	-	24,452	(24,452)
Bond & Interest	401,597	339,834	61,763
Enterprise Funds			
Water	577,905	430,257	147,648
Sewer	455,052	334,510	120,542
Total	<u>\$ 4,232,594</u>	<u>\$ 3,576,580</u>	<u>\$ 656,014</u>

The notes to the financial statements are an integral part of this statement.

City of Frontenac, Kansas

GENERAL FUND

Summary of Cash Receipts and Expenditures - Actual and Budget

For the Year Ended December 31, 2015

(With Comparative Actual Totals for the Prior Year Ended December 31, 2014)

	2015 Actual	2014 Actual	2015 Budget	Variance- Favorable (Unfavorable)
Cash Receipts:				
Taxes and Shared Revenue:				
Ad Valorem Property Tax	\$ 657,190	\$ 640,753	\$ 639,280	\$ 1,473
Motor Vehicle (& RV) Tax	109,125	96,727	98,000	(1,273)
Franchise Tax	422,042	475,727	450,000	25,727
Liquor Tax	0	0	4,935	(4,935)
Sales and Use Tax	947,923	882,280	950,000	(67,720)
Licenses and Permits	10,774	13,307	16,700	(3,393)
Fines, Forfeitures and Penalties	88,018	77,097	115,000	(37,903)
Miscellaneous	102,215	96,339	90,000	6,339
Investment Income	841	719	3,000	(2,281)
Rent / Sale of Property	0	0	38,000	(38,000)
Donations	14,600	26,625	12,500	14,125
Insurance and Other Reimbursements	54,391	48,770	54,000	(5,230)
Sugar Creek CDBG	0	0	37,482	(37,482)
Miscellaneous Grants	0	0	-	0
Total Cash Receipts	\$ 2,407,119	\$ 2,358,344	\$ 2,508,897	\$ (150,553)
Expenditures:				
General Government	\$ 773,294	\$ 741,814	\$ 795,000	\$ 53,186
Police Department	632,926	634,544	637,811	3,267
Fire Department	182,269	176,229	191,253	15,024
Municipal Court	182,832	205,070	220,000	14,930
Civil Defense	12,991	12,929	15,000	2,071
Street Department	167,824	228,508	217,825	(10,683)
Cemetery	10,298	18,202	25,000	6,798
Street Lighting	42,631	43,262	42,000	(1,262)
Debt Service-KDOT Revolving Loans	0	11,226	-	(11,226)
Miscellaneous	98,473	173,533	240,475	66,942
Grant Participation	0	2,736	7,500	4,764
Cultural Activities	1,294	3,838	11,300	7,462
Engineering	88,513	95,197	90,534	(4,663)
Economic Development	10,299	8,500	15,000	6,500
Grant Project Expense	0	0	0	0
Transfer to Other Funds	92,351	99,151	100,000	849
Total Expenditures	\$ 2,295,995	\$ 2,454,739	\$ 2,608,698	\$ 153,959
Receipts Over (Under) Expenditures	\$ 111,124	\$ (96,395)	\$ (99,801)	\$ 3,406
Unencumbered Cash, Beginning	\$ 99,790	\$ 196,185		
Unencumbered Cash, Ending	\$ 210,914	\$ 99,790		

The notes to the financial statements are an integral part of this statement.

City of Frontenac, Kansas

SPECIAL HIGHWAY FUND

Summary of Cash Receipts and Expenditures - Actual and Budget

For the Year Ended December 31, 2015

(With Comparative Actual Totals for the Prior Year Ended December 31, 2014)

	<u>2015 Actual</u>	<u>2014 Actual</u>	<u>2015 Budget</u>	<u>Variance- Favorable (Unfavorable)</u>
Cash Receipts:				
Taxes and Shared Revenue:				
State Allocations	\$ 90,318	\$ 89,177	\$ 95,000	\$ (5,823)
County Allocations	\$ 12,035	\$ 11,825	8,000	3,825
Miscellaneous			-	0
Total Cash Receipts	<u>\$ 102,353</u>	<u>\$ 101,002</u>	<u>\$ 103,000</u>	<u>\$ (1,998)</u>
Expenditures:				
Personal Service	\$ 72,351	\$ 70,050	\$ 79,458	\$ 9,408
Contractual Service	\$ 3,329	\$ 9,140	13,620	4,480
Commodities	\$ 974	\$ 11,107	8,164	(2,943)
Capital Outlay	-	-	-	-
Other Miscellaneous Expense	-	-	-	-
Total Expenditures	<u>\$ 76,654</u>	<u>\$ 90,297</u>	<u>\$ 101,242</u>	<u>\$ 10,945</u>
	<u>\$ -</u>	<u>\$ -</u>		
Receipts Over (Under) Expenditures	\$ 25,699	\$ 10,705	<u>\$ 1,758</u>	<u>\$ 8,947</u>
Unencumbered Cash, Beginning	\$ 28,181	\$ 17,476		
Unencumbered Cash, Ending	<u>\$ 53,880</u>	<u>\$ 28,181</u>		

The notes to the financial statements are an integral part of this statement.

City of Frontenac, Kansas

SPECIAL PARKS AND RECREATION FUND Summary of Cash Receipts and Expenditures - Actual and Budget For the Year Ended December 31, 2015 (With Comparative Actual Totals for the Prior Year Ended December 31, 2014)

	<u>2015 Actual</u>	<u>2014 Actual</u>	<u>2015 Budget</u>	<u>Variance- Favorable (Unfavorable)</u>
Cash Receipts:				
Taxes and Shared Revenue:				
Liquor tax	\$ 10,002	\$ 8,934	\$ 7,000	\$ 1,934
County Allocations		-	600	(600)
Charges for Services - Pool	11,589	11,339	25,600	(14,261)
Miscellaneous Revenue, Reimbursements	1,500	1,521	-	1,521
Transfers From Other Funds	50,000	50,000	50,000	0
Total Cash Receipts	<u>\$ 73,091</u>	<u>\$ 71,794</u>	<u>\$ 83,200</u>	<u>\$ (11,406)</u>
Expenditures:				
Personal Service	\$ 32,157	\$ 35,151	\$ 46,000	\$10,849
Commodities	11,433	15,535	9,100	(6,435)
Contractual Service	31,288	14,493	16,000	1,507
Capital Outlay	0	10,801	17,000	6,199
Miscellaneous		-	-	-
Total Expenditures	<u>\$ 74,878</u>	<u>\$ 75,980</u>	<u>\$ 88,100</u>	<u>12,120</u>
Receipts Over (Under) Expenditures	\$ (1,787)	\$ (4,186)	<u>\$ (4,900)</u>	<u>\$ 714</u>
Unencumbered Cash, Beginning	<u>5,355</u>	<u>9,541</u>		
Unencumbered Cash, Ending	<u><u>\$3,568</u></u>	<u><u>\$5,355</u></u>		

The notes to the financial statements are an integral part of this statement.

City of Frontenac, Kansas

BOND & INTEREST FUND

Summary of Cash Receipts and Expenditures - Actual and Budget

For the Year Ended December 31, 2015

(With Comparative Actual Totals for the Prior Year Ended December 31, 2014)

	<u>2015 Actual</u>	<u>2014 Actual</u>	<u>2015 Budget</u>	<u>Variance- Favorable (Unfavorable)</u>
Cash Receipts:				
Taxes and Shared Revenue:				
Ad Valorem Property Tax	\$ 255,023	\$ 257,565	\$ 260,000	\$ (2,435)
Motor Vehicle (& RV) Tax	35,151	33,157	31,560	1,597
Special Assessments	810	1,005	1,500	(495)
Water and Sewer	0	0	-	0
Lease Rental Income and Misc	129,600	135,300	91,700	43,600
Total Cash Receipts	<u>\$ 420,584</u>	<u>\$ 427,027</u>	<u>\$ 384,760</u>	<u>\$ 42,267</u>
Expenditures:				
Debt Service	<u>\$ 339,834</u>	<u>\$ 334,516</u>	<u>\$ 401,597</u>	<u>\$ 61,763</u>
Total Expenditures	<u>\$ 339,834</u>	<u>\$ 334,516</u>	<u>\$ 401,597</u>	<u>\$ 61,763</u>
Receipts Over (Under) Expenditures	\$ 80,750	\$ 92,511	<u>\$ (16,837)</u>	<u>\$ (19,496)</u>
Unencumbered Cash, Beginning	<u>\$ 109,317</u>	<u>\$ 16,806</u>		
Unencumbered Cash, Ending	<u><u>\$ 190,067</u></u>	<u><u>\$ 109,317</u></u>		

City of Frontenac, Kansas

EQUIPMENT RESERVE FUND

Summary of Cash Receipts and Expenditures - Actual and Budget

For the Year Ended December 31, 2015

(With Comparative Actual Totals for the Prior Year Ended December 31, 2014)

	<u>2015</u>	<u>2014 Actual</u>	<u>2015 Budget</u>	<u>Variance- Favorable (Unfavorable)</u>
Cash Receipts:				
Taxes and Shared Revenue:				
Investment Income	\$ -	\$ -	\$ -	\$ -
Transfer From Other Funds	42,351	64,151	-	42,351
Total Cash Receipts	<u>\$ 42,351</u>	<u>\$ 64,151</u>	<u>\$ -</u>	<u>\$ 42,351</u>
Expenditures:				
Capital expenditures	-	-	\$ -	\$ -
Total Expenditures	<u>-</u>	<u>-</u>	<u>\$ -</u>	<u>\$ -</u>
Receipts Over (Under) Expenditures	<u>42,351</u>	<u>64,151</u>	<u>\$ -</u>	<u>\$ 42,351</u>
Unencumbered Cash, Beginning	<u>139,600</u>	<u>75,449</u>		
Restatement of Beginning Balance	<u>139,600</u>	<u>-</u>		
Unencumbered Cash, Ending	<u>\$ 181,951</u>	<u>\$139,600</u>		

City of Frontenac, Kansas

WATER FUND

Summary of Cash Receipts and Expenditures - Actual and Budget For the Year Ended December 31, 2015 (With Comparative Actual Totals for the Prior Year Ended December 31, 2014)

	<u>2015 Actual</u>	<u>2014 Actual</u>	<u>2015 Budget</u>	<u>Variance- Favorable (Unfavorable)</u>
Cash Receipts:				
Utility Charges	\$ 529,641	\$ 530,688	\$ 492,000	\$ 38,688
Maintenance Fee	10,811	-	12,000	(12,000)
Connects and Disconnects	0	15,724	12,000	3,724
Miscellaneous Revenue	2,637	4,530	5,000	(470)
Penalties	17,922	-	-	-
Proceeds from Water Loan/CDGB	-	-	-	-
Total Cash Receipts	<u>\$ 561,011</u>	<u>\$ 550,942</u>	<u>\$ 521,000</u>	<u>\$ 29,942</u>
Expenditures:				
Personal Services	\$ 153,337	\$ 183,375	\$ 178,555	\$ (4,820)
Contractual Services	116,404	103,840	90,400	(13,440)
Commodities	52,294	85,652	79,450	(6,202)
Miscellaneous	9,842	10,872	0	(10,872)
Capital Outlay	38,380	99,575	129,500	29,925
Debt Service and KDHE Reimbursement	60,000	20,000	100,000	80,000
Transfer to Other Fund	0	15,000	0	(15,000)
Total Expenditures	<u>\$ 430,257</u>	<u>\$ 518,314</u>	<u>\$ 577,905</u>	<u>\$ 59,591</u>
Receipts Over (Under) Expenditures	\$ 130,754	\$ 32,628	<u>\$ (56,905)</u>	<u>\$ 89,533</u>
Unencumbered Cash, Beginning	286,705	254,077		
Restatement of Beginning Balance	0	0		
Unencumbered Cash, Ending	<u>\$417,459</u>	<u>\$286,705</u>		

The notes to the financial statements are an integral part of this statement.

City of Frontenac, Kansas

SEWER FUND

Summary of Cash Receipts and Expenditures - Actual and Budget For the Year Ended December 31, 2015 (With Comparative Actual Totals for the Prior Year Ended December 31, 2014)

	<u>2015 Actual</u>	<u>2014 Actual</u>	<u>2015 Budget</u>	<u>Variance- Favorable (Unfavorable)</u>
Cash Receipts:				
Utility Charges	\$ 400,435	\$ 388,297	\$ 361,000	\$ 27,297
Miscellaneous Revenue	15,514	465	-	465
Proceeds from KDHE Loan	0	0	-	-
Transfer From Other Funds	-	-	50,000	-
Total Cash Receipts	<u>\$ 415,949</u>	<u>\$ 388,762</u>	<u>\$ 411,000</u>	<u>\$ 27,762</u>
Expenditures:				
Personal Services	\$ 63,343	\$ 65,179	\$ 94,157	\$ 28,978
Contractual Services	69,408	76,458	52,700	(23,758)
Commodities	17,192	35,805	38,000	2,195
Capital Outlay	12,580	58,415	72	(58,343)
Debt Service	171,987	194,105	199,945	5,840
Miscellaneous	0	1,200	-	-
Total Expenditures	<u>\$ 334,510</u>	<u>\$ 431,162</u>	<u>\$ 455,052</u>	<u>\$ (45,088)</u>
Receipts Over (Under) Expenditures	\$ 81,439	\$ (42,400)	<u>\$ (44,052)</u>	<u>\$ (17,326)</u>
Unencumbered Cash, Beginning	<u>47,338</u>	<u>89,738</u>		
Unencumbered Cash, Ending	<u>\$128,777</u>	<u>\$47,338</u>		

The notes to the financial statements are an integral part of this statement.

City of Frontenac, Kansas

TEMPORARY NOTE-SEWER PROJECT FUND Summary of Cash Receipts and Expenditures - Actual and Budget For the Year Ended December 31, 2015 (With Comparative Actual Totals for the Prior Year Ended December 31, 2014)

	<u>2015 Actual</u>	<u>2014 Actual</u>	<u>2015 Budget</u>	<u>Variance- Favorable (Unfavorable)</u>
Cash Receipts:				
Proceeds from Temporary Note	\$ 225,000	\$ -	\$ -	\$ -
			\$ -	
Total Cash Receipts	<u>\$ 225,000</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Expenditures:				
Personal Service		\$ -	\$ -	\$ -
Contractual Service		\$ -	\$ -	\$ -
Commodities		\$ -	\$ -	\$ -
Capital Outlay	-	\$ -	\$ -	\$ -
Other Miscellaneous Expense	24,452	\$ -	\$ -	\$ -
Total Expenditures	<u>\$ 24,452</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
		\$ -		
Receipts Over (Under) Expenditures	\$ 200,548	\$ -	<u>\$ -</u>	<u>\$ -</u>
Unencumbered Cash, Beginning	\$ -	\$ -		
Unencumbered Cash, Ending	<u>\$ 200,548</u>	<u>\$ -</u>		

The notes to the financial statements are an integral part of this statement.

City of Frontenac, Kansas

METER DEPOSIT FUND
Summary of Cash Receipts and Cash Disbursements
For the Year Ended December 31, 2014

	<u>Beginning Cash Balance</u>	<u>Cash Receipts</u>	<u>Cash Disbursements</u>	<u>Ending Cash Balance</u>
Meter Deposits	<u>\$ 40,851</u>	<u>\$ 10,577</u>	<u>\$ 1,606</u>	<u>\$ 49,822</u>

The notes to the financial statements are an integral part of this statement.

City of Frontenac, Kansas

NOTES TO FINANCIAL STATEMENTS

December 31, 2015

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

- A. Reporting Entity: The City of Frontenac is a municipal corporation governed by an elected eight-member council. The City has considered whether any other organizations should be included in the reporting entity based upon the significance of their operation or financial relationships with the City, and has determined no other outside organizations should be included as a component unit in the City's financial statements.
- B. Basis of Accounting: The statutory basis of accounting, as used in the preparation of these statutory basis financial statements, is designed to demonstrate compliance with the cash basis and budget laws of the State of Kansas. Cash receipts are recognized when the cash balance of a fund is increased. Expenditures include disbursements, accounts payable and encumbrances. Encumbrances are commitments related to unperformed (executory) contracts for goods and services, and are usually evidenced by a purchase order or written contract. For an inter-fund transaction, a cash receipt is recorded in the fund receiving cash from another fund, and an expenditure would be charged in the fund from which the transfer is made.

The municipality has obtained a waiver from generally accepted accounting principles which allows the municipality to revert to the statutory basis of accounting.

- C. Departures from Generally Accepted Accounting Principles: The basis of accounting described above results in a financial statement presentation which shows cash receipts, cash disbursements, cash and unencumbered cash balances, and expenditures compared to budget. Balance sheets that would have shown noncash assets such as receivables, inventories, and prepaid expense; liabilities such as deferred revenue and matured principal and interest payable; and reservations of fund balance are not presented. Under generally accepted accounting principles, encumbrances are only recognized as a reservation of fund balance; encumbrances outstanding at year end do not constitute expenditures or liabilities. Consequently, the expenditures, as reported, do not present the cost of goods and services received during the fiscal year in accordance with generally accepted accounting principles. Fixed assets that account for land, buildings, and equipment owned by the municipality are not presented in the financial statements. Also, long-term debt such as general obligation bonds, temporary notes, and compensated absences are not presented in the financial statements.
- D. Investments: Investments are recorded at cost. Investment gains and losses are recognized upon disposition of the security or the occurrence of a permanent decline in market value.

City of Frontenac, Kansas

NOTES TO FINANCIAL STATEMENTS

December 31, 2015

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

- E. Pooled Cash: The City maintains various bank accounts and certificates of deposit for its pooled cash. Each fund's equity in these accounts is presented as "cash and investments" in the statements. Interest income is recorded in the General and Utility Funds.

NOTE 2: DEPOSITS AND INVESTMENTS

Collateral is required for demand deposits and certificates of deposit. The market value of the collateral must equal 100% of the deposits in excess of deposit insurance. Obligations that may be pledged as collateral are of the same type as authorized for investment by the City. Obligations pledged to secure deposits are delivered to the safekeeping division of the custodial bank.

At December 31, 2015, the City had deposits, including certificates of deposit, of \$1,552,011, 100% of which was covered by federal depository insurance and/or collateralized by U.S. Government or agency securities subject to joint custody safekeeping receipts issued by the custodial financial institution, which was not the pledging institution, as required by Kansas statutes.

The City had no investments at December 31, 2015.

State law (KSA 12-1675 to 12-1678) allows monies not otherwise regulated by statute to be invested in:

1. Temporary notes or no fund warrants of the City of Frontenac.
2. Time deposits, open accounts or certificates of deposit with maturities of not more than two years in commercial banks which have offices located in the City of Frontenac.
3. Time certificates of deposit with maturities of not more than two years in state or federally chartered savings and loan associations or federally chartered savings banks which have offices located in the City of Frontenac.
4. Repurchase agreements (for direct obligations of or obligations insured as to principal and interest by the U.S. Government or U.S. Government agencies) with commercial banks, state or federally insured chartered savings and loan associations or federally chartered savings banks which have offices located in the City of Frontenac.
5. U.S. Treasury bills or notes with maturities not exceeding two years, purchased from any state or national bank, state or federally chartered savings and loan association or federally chartered savings bank with offices within the State of Kansas or the Federal Reserve Bank of Kansas City, Missouri.
6. The municipal investment pool fund established in K.S.A. 12-1677a.
7. Investments authorized in accordance with the conditions prescribed in K.S.A. 12-1677b.
8. Multiple municipal client investment pools managed by the trust departments of commercial banks which have offices in Crawford County.

City of Frontenac, Kansas

NOTES TO FINANCIAL STATEMENTS

December 31, 2015

NOTE 2: DEPOSITS AND INVESTMENTS (Continued)

Cash and investments, Per Bank, at December 31, 2015, were:

Deposits:	
Checking accounts	\$1,286,220
Certificates of deposit	<u>\$ 265,791</u>
Total	<u>\$1,552,011</u>

Total cash and investments, after deducting outstanding checks and deposits in transit was \$1,436,986 at December 31, 2015.

K.S.A. 9-1401 establishes the depositories which may be used by the Government. The statute requires banks eligible to hold the Government's funds have a main or branch bank in the county in which the Government is located, or in an adjoining county if such institution has been designated as an official depository, and the banks provide an acceptable rate of return on funds. In addition, K.S.A. 9-1402 requires the banks to pledge securities for deposits in excess of FDIC coverage. The Government has no other policies that would further limit interest rate risk.

NOTE 3: BUDGETARY INFORMATION

Kansas statutes require that an annual operating budget be legally adopted for the general fund, special revenue funds (unless specifically exempt by statute), debt service funds, and enterprise funds. The statutes provide for the following sequence and timetable in the adoption of the legal annual operating budget:

1. Preparation of the budget for the succeeding calendar year on or before August 1st.
2. Publication in local newspaper on or before August 5th of the proposed budget and notice of public hearing on the budget.
3. Public hearing on or before August 15th, but at least ten days after publication of notice of hearing.
4. Adoption of the final budget on or before August 25th.

The statutes allow for the governing body to increase the originally adopted budget for previously unbudgeted increases in revenue other than ad valorem property taxes. To do this, a notice of public hearing to amend the budget must be published in the newspaper. At least ten days after publication, the hearing may be held and the governing body may amend the budget at that time. The budget information for the general fund in the accompanying financial statements is from amended budget amounts.

The statutes permit transferring budgeted amounts between line items within an individual fund. However, such statutes prohibit expenditures in excess of the total amount of the adopted budget of expenditures of individual funds. Budget comparison statements are presented for

City of Frontenac, Kansas

NOTES TO FINANCIAL STATEMENTS

December 31, 2015

NOTE 3: BUDGETARY INFORMATION (Continued)

each fund showing actual receipts and expenditures compared to legally budgeted receipts and expenditures.

All legal annual operating budgets are prepared using the modified accrual basis of accounting modified further by the encumbrance method of accounting. Revenues are recognized when cash is received. Expenditures include disbursements, accounts payable, and encumbrances. Encumbrances are commitments by the municipality for future payments and are supported by a document evidencing the commitment, such as a purchase order or contract. Any unused budgeted expenditure authority lapses at year-end.

A legal operating budget is not required for capital projects funds and trust funds.

NOTE 4: LONG-TERM DEBT

On April 26, 2013, the City issued \$1,365,000 in general obligation refunding bonds, series 2013A for the advance refunding of a portion of the 2005 series general obligation bond issuance, (series 2005A bonds maturing in the years 2016 to 2024) and the full payment of the following debt issuances of the City of Frontenac: Kansas Department of Health and Environment (KDHE) loan number 2434, Kansas Department of Transportation loan number TR 087 and TR 0130. On March 25, 2015, the City issued \$250,000 in general obligation temporary notes, series 2015A for certain internal improvements of the City. On August 18, 2016, the City paid off the balance outstanding of \$250,000 owed on the debt issuance.

Following is a detailed listing of the municipality's long-term debt including capital leases:

Debt Issue	Date Issued	Original Amount	Interest Rate
G.O. Bonds Series 2015	03/02/2015	\$250,000	Varies
G.O. Bonds Series 2013	05/01/2013	\$1,365,000	2.00%-2.10%
G.O. Bonds Series 2010	09/15/2010	\$250,000	2.5%-4.75%
G.O. Bonds Series 2005	05/01/2005	\$1,812,000	3.4%-6.25%
G.O. Bonds Series 2008	04/01/2008	\$1,885,000	2.85%-4.85%
KDHE Revolving 1345-01	12/04/2008	\$2,688,832	3.44%

Capital Leases	Date Issued	Original Amount	Interest Rate
2012 Backhoe	09/25/2012	\$87,604	3.30%
2012 Chevy Silverado	04/05/2012	\$30,281	3.25%
2013 Excavator	09/20/2013	\$24,471	4.30%
2015 Chevy Silverado	04/14/2014	\$36,000	3.5%

City of Frontenac, Kansas

NOTES TO FINANCIAL STATEMENTS

December 31, 2015

NOTE 4: LONG-TERM DEBT (Continued)

The following is a summary of changes in the long-term debt for the year ended December 31, 2015:

	Principal Outstanding 12/31/2014	Additions to Principal & Drawdowns	Reduction In Principal	Principal Outstanding 12/31/2015
Gen. Obligation Bonds				
Series 2015	\$0	\$250,000	\$0	\$250,000
Series 2013	\$1,205,000	\$0	\$90,000	\$1,115,000
Series 2010	\$163,000	\$0	\$24,000	\$139,000
Series 2005	\$65,000	\$0	\$65,000	\$0
Series 2008	\$1,510,000	\$0	\$80,000	\$1,430,000
KDHE Revolve 1345-01	\$486,272	\$0	156,595	\$329,677
Total G.O. Bonds & Revolving Loans	<u>\$3,429,272</u>	<u>\$250,000</u>	<u>\$415,595</u>	<u>\$3,263,677</u>

	Beginning Principal Outstanding	Additions to Principal	Reductions Of Principal	Ending Principal Outstanding
Capital Leases:				
2012 Backhoe	\$55,850	\$0	\$11,043	\$44,807
2012 Chevy Silverado	\$3,514	\$0	\$3,514	\$0
2013 JD Excavator	\$19,044	\$0	\$4,782	\$14,262
2015 Chevy Silverado	\$24,886	\$0	\$18,664	\$6,222
2013 Chevy Impala	\$10,571	\$0	\$7,890	\$2,681
Total Capital Leases	<u>\$113,865</u>	<u>\$0</u>	<u>\$45,893</u>	<u>\$67,972</u>
Total Debt	<u>\$3,543,137</u>	<u>\$250,000</u>	<u>\$461,488</u>	<u>\$3,331,649</u>

City of Frontenac, Kansas

NOTES TO FINANCIAL STATEMENTS

December 31, 2015

NOTE 4: LONG-TERM DEBT (Continued)

Kansas Department of Health and Environment Revolving Loans

At December 31, 2015, the City had one loan outstanding with the Kansas Department of Health and Environment (KDHE), project number 1345-01. Project number 2434 was paid off in its entirety in 2013 in conjunction with the Series 2013 General Obligation Refunding Funding bonds issued April 26, 2013. Project number 1345-01 had a principal balance of \$637,616 issued for water pollution control improvements and requires an annual payment of \$171,988. Future minimum total payments on this loan are as follows:

	Principal	Interest	Total
Year 2016	\$162,027	\$9,961	\$171,988
Year 2017	\$167,650	\$4,337	\$171,987
Total	<u>\$329,677</u>	<u>\$14,298</u>	<u>\$343,975</u>

G.O. Bonds

The annual debt service requirements on general obligation bonds at December 31, 2015 were as follows:

	General Obligation Bonds		
Year	Principal	Interest	Total
2016	\$265,000	\$87,892	\$352,892
2017	\$256,000	\$81,609	\$337,609
2018	\$268,000	\$75,005	\$343,005
Thereafter	\$1,895,000	\$322,288	\$2,217,288
Totals	<u>\$2,684,000</u>	<u>\$566,794</u>	<u>\$3,250,794</u>

City of Frontenac, Kansas

NOTES TO FINANCIAL STATEMENTS

December 31, 2015

NOTE 4: LONG-TERM DEBT (Continued)

Leases

The City's future minimum lease payments on its leases as of December 31, 2015, were as follows:

2016	\$26,384
2017	\$18,228
2018	\$16,852
2019	\$ 9,540
Future minimum lease payments	\$71,004
Less: Interest	(\$3,032)
Present value of future minimum lease payments	<u>\$67,972</u>

NOTE 5: DEFINED BENEFIT PENSION PLAN

Plan Description: The City of Frontenac, KS participates in the Kansas Public Employees Retirement System (KPERS), a cost-sharing multiple-employer defined benefit plan as provided by K.S.A. 74-4901 et seq. KPERS provides retirement benefits, group life insurance, disability income benefits, and death benefits. Kansas law establishes and amends benefit provisions. KPERS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to KPERS (611 S. Kansas, Suite 100; Topeka, KS 66603) or by calling 1-888-275-5737.

Funding Policy: K.S.A. 74-4919 establishes the KPERS member-employee contribution rate at 4% of covered salary. Member-employees' contributions are withheld by their employer and paid to KPERS according to provisions of section 414(h) of the Internal Revenue Code. State law provides that the employer contribution rate be determined annually based on the results of an annual actuarial valuation. KPERS is funded on an actuarial reserve basis. KPERS combined employer rate established by statutes for January 1, 2015 to June 30, 2015 is 10.33%. and from July 1, 2015 to December 31, 2015 is 10.48% The City of Frontenac, KS employer contributions to KPERS for the year ended December 31, 2015 was \$113,054 equal to the required contributions for each year.

City of Frontenac, Kansas

NOTES TO FINANCIAL STATEMENTS

December 31, 2015

NOTE 6: NET PENSION LIABILITY

At December 31, 2015, the City of Frontenac, Kansas's proportionate share of the collective net pension liability reported by KPERS was \$770,310. The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2014, which was rolled forward to June 30, 2015. The City of Frontenac, Kansas's proportion of the net pension liability was based on the ratio of the City of Frontenac, Kansas' contributions to KPERS, relative to the total employer and non-employer contributions of the Local subgroup within KPERS. Since the KMAAG regulatory basis of accounting does not recognize long-term debt, this liability is not reported in these financial statements.

The complete actuarial valuation report including all actuarial assumptions and methods, and the report on the allocation of the KPERS collective net pension liability to all participating employers are publicly available on the website at www.kpers.org or can be obtained as described above.

NOTE 7: COMPENSATED ABSENCES

The City's policy is to pay employees for vacation leave for up to 12 days per year for the first 10 years of service, 18 days per year for service 11 to 15 years, 21 days for service between 16 and 20 years and a maximum of 24 days per year for those with 20 years and more of service to the City. Employees are paid for any unused vacation leave upon termination. Employees also have the right to be paid for up to 40 hours of unused vacation leave each year if requested by December 1 of each year.

The City's employees also earn eight hours of sick leave for each full month of service. There is no limit to the amount of sick leave hours which may be accumulated. An employee shall not be paid for any unused sick leave upon termination of employment.

NOTE 8: COMMITMENTS

John Deere Building

The City entered into a lease for a building which is sub-leased to a non-profit entity. The City has made improvements to the building which the sub-lessee has agreed to reimburse if the term of the sub-lease is not carried to its full term. Both the lease and the sub-lease can be terminated with appropriate notice in June, 2007. The City has an option to buy the building with previous lease payments (minus interest at an annual rate of 7%) being applied to the option purchase price of \$300,000. The City's lease payments are \$2,000 per month and they sub-lease the building for \$3,000 per month. After June, 2007, the lease is cancelable by the City each six months.

City of Frontenac, Kansas

NOTES TO FINANCIAL STATEMENTS

December 31, 2015

NOTE 9: CONCENTRATIONS OF CREDIT RISK

Credit is extended to utility customers on a partially-secured basis with a cash deposit required at the inception of service.

NOTE 10: RISK MANAGEMENT

The City is exposed to various risks of loss from torts; theft of, damage to; and destruction of assets; business interruption; errors and omissions; employee injuries and illness; natural disasters; and accident benefits. Commercial insurance coverage is purchased for claims arising from such matters. Settled claims have not exceeded this commercial coverage in any of the three preceding years.

NOTE 11: INTERFUND TRANSFERS

In compliance with K.S.A. 12-101(a) and K.S.A. 12-825(d), the following operating transfers were as follows for the year ended December 31, 2015:

From	To	Amount
General Fund	Park & Recreation Fund	\$50,000
General Fund	Equipment Reserve Fund	\$42,351

NOTE 12: EVALUATION OF SUBSEQUENT EVENTS

The organization has evaluated subsequent events through December 21, 2016, the date which the financial statements were available to be issued.

NOTE 13: BUCKEYE ESTATES CONSTRUCTION PHASE III

At December 31, 2015, \$335 was held at a local bank, in the name of the City, for the purpose of holding private monies on behalf of the Buckeye Estates Construction Phase III development. The account is used to pay expenses on behalf of the development of the subdivision and provides tax exempt status for the construction of the subdivision. The City will take ownership of the infrastructure once the project is complete. Based on the nature of the funds, the City has chosen not to include the balance on the financial statements as they are merely acting as a custodian of the funds.



Monica R. Kellogg
CPA, LLC

214 East McKay | Frontenac, KS

City of Frontenac
Frontenac, Kansas

We have audited the financial statements of the City of Frontenac, Kansas, for the year ended December 31, 2015. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility under U.S. Generally Accepted Auditing Standards

As stated in our engagement letter, our responsibility, as described by professional standards, is to plan and perform the audit to obtain reasonable, but not absolute, assurance about whether the financial statements are free of material misstatement and are fairly presented in accordance with the statutory basis of accounting, another comprehensive basis of accounting, other than generally accepted accounting principles. Because an audit is designed to provide reasonable, but not absolute assurance and because we did not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and not be detected by us.

As part of our audit, we considered the internal control of the City of Frontenac, Kansas. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of the organization's compliance with certain provisions of laws, regulations, contracts and grants. However, the objective of our tests was not to provide an opinion on compliance with such provisions.

Significant Accounting Policies

Management has the responsibility for selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application.

The significant accounting policies used by the City are described in Note 1 to the financial statements. No new accounting policies were adopted by the City and the application of existing policies was not changed during 2015. We noted no transactions entered into by the City during 2015 that were both significant and unusual, and of which, under professional standards, I am required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected.

Corrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. We have been informed that management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole.

Disagreement with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the Auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated December 21, 2016.

Consultation with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all of the relevant facts. To our knowledge, there were no such consultations with other accountants.

Issues Discussed Prior to Retention of Independent Auditors

We generally discuss a variety of matters including the application of the accounting principles and auditing standards, with management each year prior to retention as the City's retention as auditor. However, this discussion occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Difficulties Encountered in Performing the Audit

We encountered no difficulties in dealing with management in performing our audit.

This communication is intended solely for the information and use of the City of Frontenac, Kansas and grantor agencies assisting the Organization and should be not used by anyone other than these intended parties.


Monica R. Kellogg, CPA, LLC
Frontenac, Kansas

December 21, 2016



Monica R. Kellogg
CPA, LLC

214 East McKay | Frontenac, KS

City of Frontenac
Frontenac, Kansas

In planning and performing our audit of the financial statements of the City of Frontenac, Kansas, as of and for the year ended December 31, 2015, in accordance with auditing standards generally accepted in the United States of America, we considered the City's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies or material weaknesses.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is a more than remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. A material weakness is a significant deficiency or combination of significant deficiencies that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Organization's internal control. We consider the following to be a material weakness:

It was noted during our audit that the Organization does not have formal policy and procedures in place for management review and approval of City employees credit card purchasing. This results in an increased risk that material transactions in the City's financial records are not properly reported as well as an increased risk of misappropriation of City funds. We recommend the City formally adopt policies and procedures for the review and approval of employee credit card purchases.

Our consideration of internal control was for the limited purpose described in the first paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. This communication is intended solely for the information and use of management and the board of directors and is not intended to be, and should not be, used by anyone other than those specified parties.


Monica R. Kellogg, CPA, LLC
Frontenac, Kansas

December 21, 2016